Contemporary Labor Economics 12th edition McConnell Test Bank

SKU: 9781260243055-TEST-BANK

Contemporary Labor Economics 12th Edition by McConnell CH01

ANSWERS ARE LOCATED IN THE SECOND PART OF THIS DOCUMENT

1) Because resources are scarce relative to human wants, economics is best described as

1) _____

A) the science of allocating productive resources fairly.
B) a science of choice.
C) the science of allocating goods and services fairly.
D) the set of natural laws that govern human behavior in the face of adverse conditions.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-01 Explain why labor economics is justified as a special field of inquiry.
Topic : Labor Economics as a Discipline

2) Labor economics is studied as a distinct subfield of economics because

2) _____

A) the bulk of national income is received by labor.
B) the concepts of supply and demand must be revised somewhat when applied to labor markets.
C) labor economics can be used to analyze major socioeconomic trends such as the surge in the number of women workers.
D) All of these choices are correct.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-01 Explain why labor economics is justified as a special field of inquiry.
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3) The bulk of national income flows to

3) _____

A) landowners in the form of rent.
B) capital owners in the form of interest.
C) capital owners in the form of profit.
D) workers in the form of wages and salaries.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-01 Explain why labor economics is justified as a special field of inquiry.
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4) As distinct from product market transactions, labor market transactions are unique in that

4) _____

A) to the seller, the nonmonetary characteristics of the sale can be as important as the price.
B) labor demand curves slope upward.
C) the price of labor is not determined by supply and demand factors.
D) they are less complex.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-01 Explain why labor economics is justified as a special field of inquiry.
Topic : Labor Economics as a Discipline

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5) The concept of demand must be modified when applied to labor markets to reflect the fact that

5) _____

A) nonmonetary characteristics of jobs may be as important to workers as their pay.
B) labor demand curves slope upward from left to right.
C) the demand for labor is derived from the demand for the various products that labor produces.
D) the demand for output is derived from the demand for labor used to produce that output.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-01 Explain why labor economics is justified as a special field of inquiry.
Topic : Labor Economics as a Discipline

6) The "old" view of labor economics stresses _____, while the "new" view focuses upon _____.

6) _____

A) analysis; markets
B) description; analysis
C) description; institutions
D) institutions; description

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-01 Explain why labor economics is justified as a special field of inquiry.
Topic : The "Old" and the "New"

7) Because scarcity forces people to make purposeful choices, labor market participants

7) _____

A) work as many hours as possible.
B) respond to changes in perceived costs and benefits.
C) make choices that cannot be predicted.
D) must have perfect information.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-02 Describe how the economic perspective can be applied to analysis of labor
Topic : Economic Perspective

8) The three basic characteristics of the economic perspective are

8) _____

A) relative scarcity, purposeful behavior, and adaptability.
B) supply, demand, and equilibrium.
C) description, institutions, and facts.
D) prices, quantities, and incomes.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Learning Objective : 01-02 Describe how the economic perspective can be applied to analysis of labor
Topic : Economic Perspective

9) Which one of the following topics is most suited to macroeconomic analysis?

9) _____

A) labor supply decisions of married women
B) short-run labor demand in a particular industry
C) the individual decision on how much education to obtain
D) the impact of a recession on the country's unemployment rate

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Overview
Learning Objective : 01-03 Identify those topics in labor economics that are mainly "microecono

10) Which one of the following topics is most suited to microeconomic analysis?

10) _____

A) the average level of real wages
B) the unemployment rate
C) the average level of labor productivity
D) mobility and migration decisions

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Overview
Learning Objective : 01-03 Identify those topics in labor economics that are mainly "microecono

11) Nobel Laureate Gary Becker is known for economic theories in all of the following areas *except*

11) _____

A) economics of households.
B) investment in human capital.
C) the "old" labor economics.
D) economics of discrimination.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Overview
Learning Objective : 01-03 Identify those topics in labor economics that are mainly "microecono

12) Nobel Laureate Gary Becker's basic professional contribution is his

12) _____

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A) application of traditional theories of anthropology to labor markets.

B) application of the economic perspective to law, sociology, demographics, and anthropology.

C) statistical verification of race and gender discrimination.

D) explanation of the limitations of the economic perspective in explaining labor markets.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Overview
Learning Objective : 01-03 Identify those topics in labor economics that are mainly “microecono

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Answer Key

Test name: CH01

1) B
2) D
3) D
4) A
5) C
6) B
7) B
8) A
9) D
10) D
11) C
12) B

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Contemporary Labor Economics 12th Edition by McConnell CH02

ANSWERS ARE LOCATED IN THE SECOND PART OF THIS DOCUMENT

1) In the context of the basic work–leisure model, "work" is defined as

1) _____

A) time devoted to a paying job or household work.
B) time devoted to a paying job.
C) time devoted to any "undesirable" activity.
D) all time not devoted to rest and relaxation.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

2) In the context of the basic work–leisure model, "leisure" time includes

2) _____

A) only time devoted to rest and relaxation.
B) any time not devoted to either a paying job or household work.
C) any time devoted to anything desirable.
D) any time not devoted to a paying job.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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3) The slope of an indifference curve at any point reflects the

3) _____

A) rate at which a person is willing to substitute leisure for income.
B) wage rate.
C) income effect.
D) substitution effect.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

4) Indifference curves are convex to the origin because

4) _____

A) at a lower income, a person is more willing to sacrifice income for additional leisure.
B) at a lower income, a person is less willing to sacrifice income for additional leisure.
C) at any income level, a person is willing to sacrifice the same amount of income for additional leisure.
D) the marginal rate of substitution of leisure for income is negative.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

5) The convex shape of a standard indifference curve reflects

5) _____

A) a diminishing marginal rate of substitution of leisure for income.
B) an increasing marginal rate of substitution of leisure for income.
C) a constant marginal rate of substitution of leisure for income.
D) the wage rate.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

6) On an indifference map reflecting the tradeoff between income and leisure, higher levels of utility are achieved by moving

6) _____

A) from left to right along a given indifference curve.
B) from right to left along a given indifference curve.
C) to an indifference curve further from the origin.
D) to an indifference curve closer to the origin.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

7) For income and leisure time, a higher level of utility is achieved by moving to the _____ on an indifference _____.

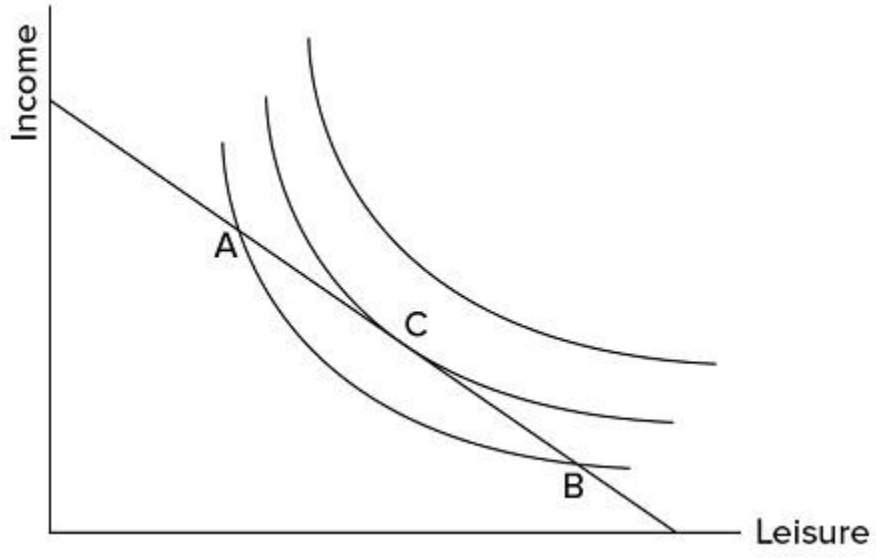
7) _____

A) northeast; curve
B) southwest; curve
C) northeast; map
D) southwest; map

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Bloom's : Understand
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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8) Refer to the following diagram representing Larry's budget constraint and preferences.



Consider the three combinations of leisure and income represented by points A, B, and C. Which of the following is a correct statement?

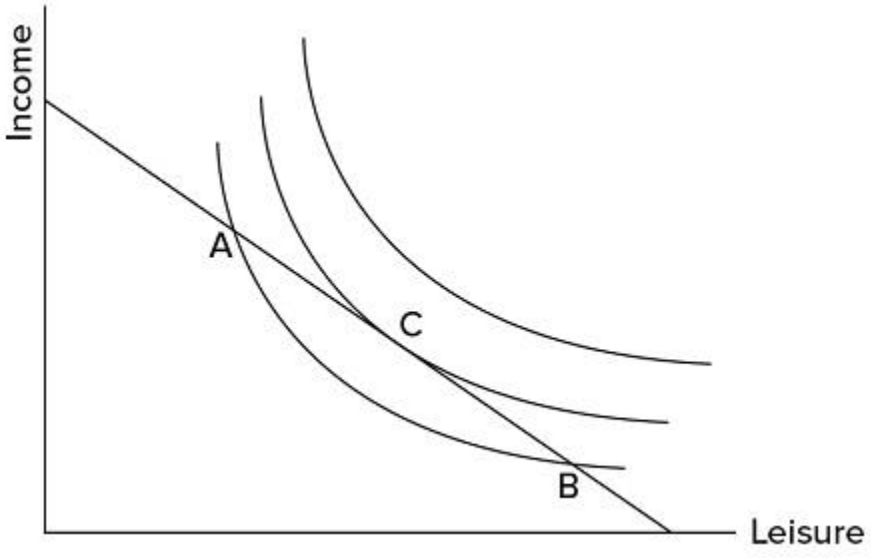
8) _____

A) Larry prefers A to B.
B) Larry prefers A to C.
C) Larry prefers B to C.
D) Larry prefers C to A.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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9) Refer to the following diagram representing Larry's budget constraint and preferences.



Which of the following is a correct statement?

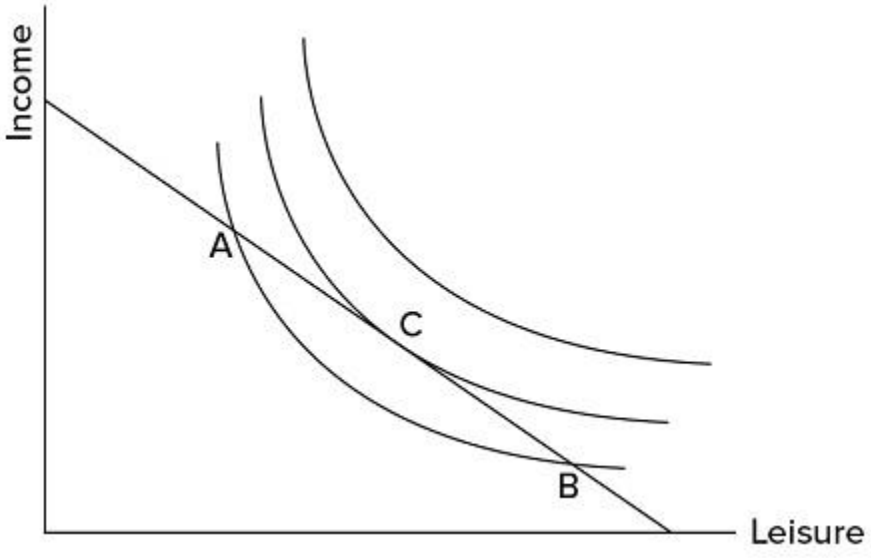
9) _____

A) At A, Larry's marginal valuation of leisure is higher than the market wage.
B) At B, Larry's marginal valuation of leisure is higher than the market wage.
C) At C, Larry's marginal valuation of leisure is lower than the market wage.
D) At B, Larry values leisure the same amount as at A.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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10) Refer to the following diagram representing Larry's budget constraint and preferences.



At point A, Larry's marginal rate of substitution of leisure for income

10) _____

A) exceeds the wage and Larry would like to work more hours.
B) exceeds the wage and Larry would like to work fewer hours.
C) is less than the wage and Larry would like to work more hours.
D) is less than the wage and Larry would like to work fewer hours.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

11) On a standard income–leisure diagram, Sara has steeper indifference curves than John. This likely reflects the fact that

11) _____

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A) Sara likes leisure but dislikes income, while John likes both.
B) Sara likes income but dislikes leisure, while John likes both.
C) Sara values leisure more highly compared to income than John does.
D) John values leisure more highly compared to income than Sara does.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

12) The higher the individual's wage rate,

12) _____

A) the steeper the budget constraint.
B) the lower the marginal rate of substitution of leisure for income.
C) the greater the desired number of hours of work.
D) the greater the desired number of hours of leisure.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

13) The slope of a standard budget constraint reflects

13) _____

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A) a diminishing marginal rate of substitution of leisure for income.
B) an increasing marginal rate of substitution of leisure for income.
C) a constant marginal rate of substitution of leisure for income.
D) the wage rate.

Question Details
AACSB : Reflective Thinking
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Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

14) In an income–leisure diagram, the wage rate is graphically represented by the

14) _____

A) slope of the indifference curves.
B) curvature of the indifference curves.
C) slope of the budget line.
D) tangency of the budget line with an indifference curve.

Question Details
AACSB : Reflective Thinking
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Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

15) The optimal work–leisure position is achieved where

15) _____

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A) the MRS L,Y is equal to the wage rate.
B) the difference between the MRS L,Y and the wage is greatest.
C) the wage rate is greatest.
D) the MRS L,Y is greatest.

Question Details
AACSB : Reflective Thinking
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Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
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16) An individual whose MRS L,Y exceeds the wage at her current combination of leisure and income could increase utility by

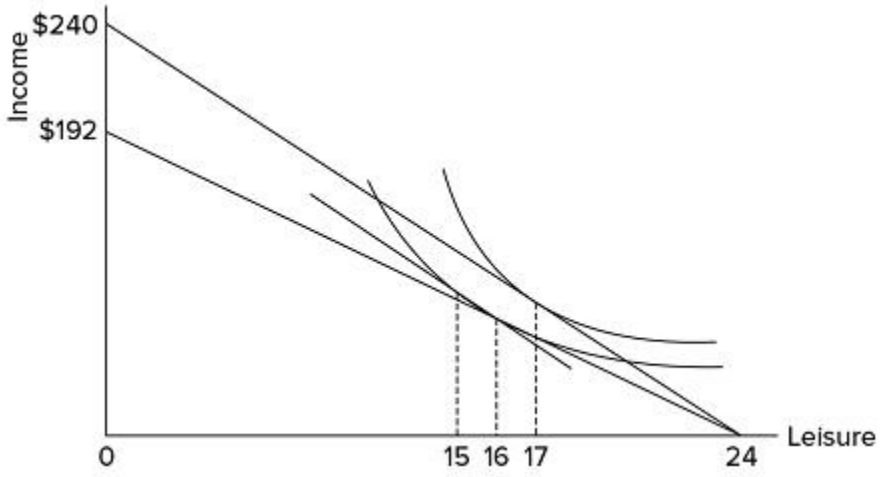
16) _____

A) working more hours.
B) working fewer hours.
C) increasing her income.
D) None of the other choices is correct; her utility is maximized.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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17) Refer to the following diagram.



Considering the two budget lines in the diagram, if the person's optimal number of hours worked is seven hours, then the wage rate

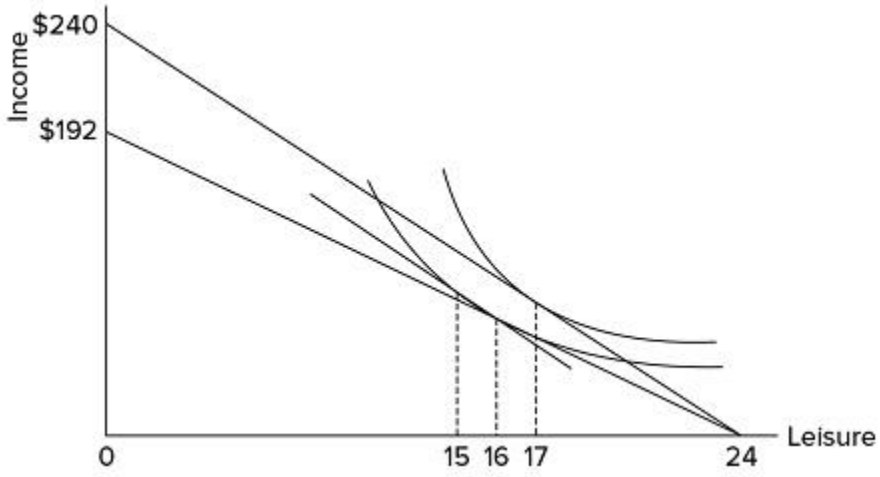
17) _____

A) must be $10.
B) must be $192.
C) must be $240.
D) cannot be determined.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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18) Refer to the following diagram.



The person has nonwage income of

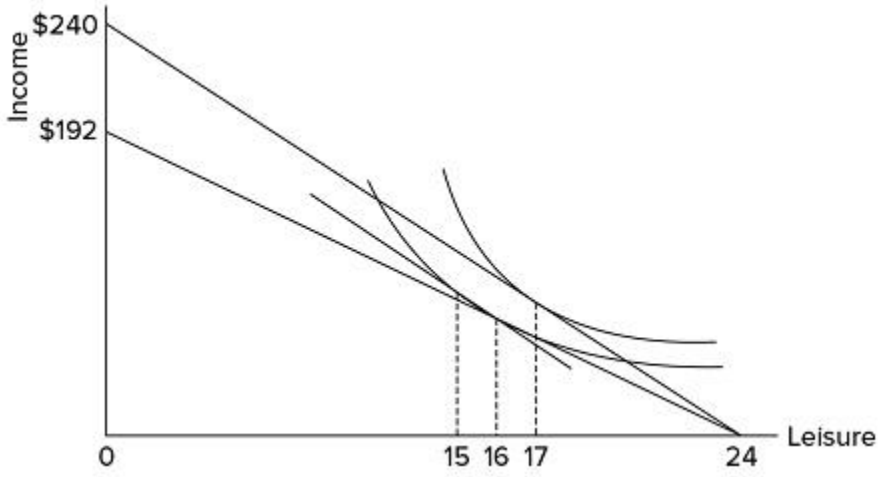
18) _____

A) $0.
B) $10.
C) $192.
D) $240.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
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19) Refer to the following diagram.



If this person's wage rate falls as illustrated in the diagram, then

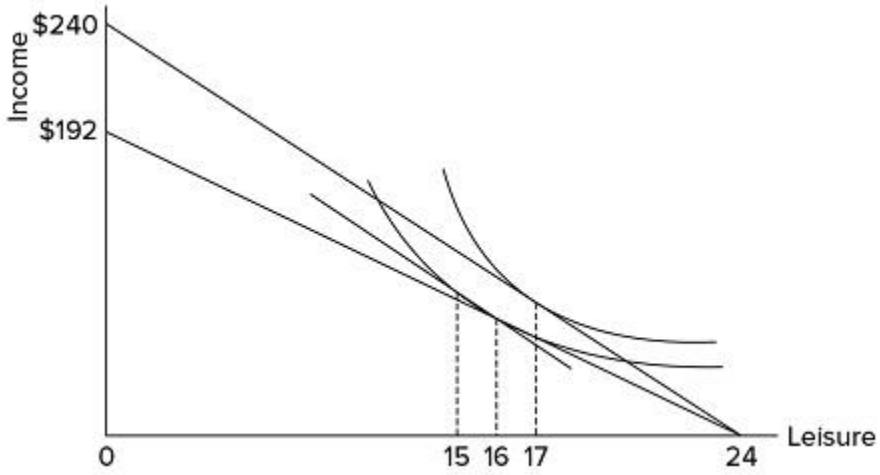
19) _____

A) the substitution effect is stronger than the income effect.
B) the income effect is stronger than the substitution effect.
C) this person's nonwage income will fall as well.
D) the substitution effect causes desired work hours to increase.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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20) Refer to the following diagram.



The income effect of the illustrated wage decrease causes this individual to work

20) _____

A) one fewer hour.
B) one more hour.
C) two fewer hours.
D) two more hours.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
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Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

21) The income effect is

21) _____

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A) the combination of leisure and wage rate that maximizes one's income.
B) the part of the total change in desired work hours that is due to the change in real income resulting from a change in the wage rate.
C) the part of the total change in desired work hours that is due to a change in the wage rate, with real income or utility constant.
D) always dominated by the substitution effect.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

22) The substitution effect is

22) _____

A) the combination of leisure and wage rate that maximizes one's income.
B) the part of the total change in desired work hours that is due to the change in real income resulting from a change in the wage rate.
C) the part of the total change in desired work hours that is due to a change in the wage rate, with real income or utility constant.
D) always dominated by the income effect.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
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Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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23) An increase in the wage rate will increase desired hours of work if

23) _____

A) the income effect and substitution effect cancel one another.
B) the income effect dominates the substitution effect.
C) the substitution effect dominates the income effect.
D) accompanied by an increase in nonwage income.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual’

24) Which one of the following would be most likely to shift the labor supply curve to the right?

24) _____

A) a decrease in the wage rate
B) a change in the indifference map following deterioration of working conditions
C) a change in the indifference map following an improvement in working conditions
D) a significant increase in dividend and interest income

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Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

25) Consider the impact of a general increase in real wages. Empirical evidence suggests that men will tend to work _____ hours and women will tend to work _____ hours.

25) _____

A) more; fewer
B) more; about the same
C) fewer; fewer
D) about the same; more

Question Details
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Topic : The Work–Leisure Decision: Basic Model
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26) Which of the following would unambiguously predict a decrease in desired hours of work?

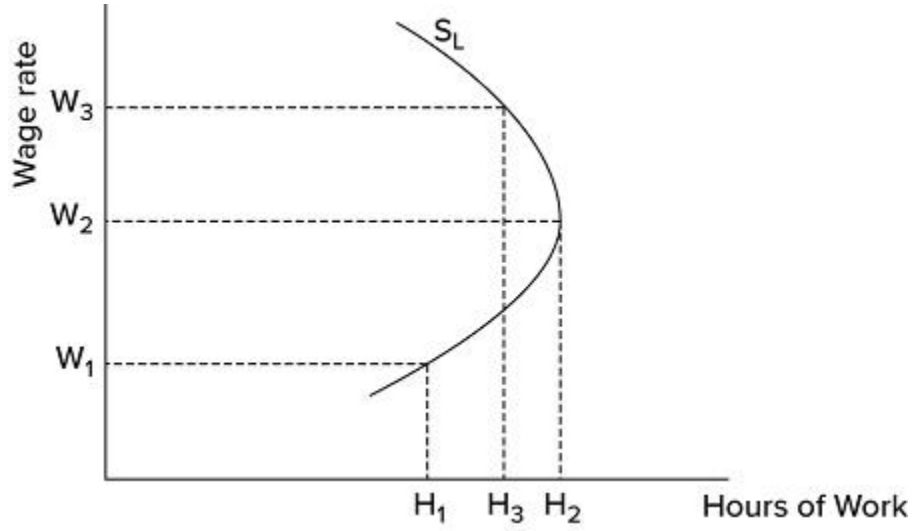
26) _____

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A) the substitution effect of a wage decrease
B) the income effect of a wage decrease
C) a wage increase
D) the substitution effect of a decline in income tax rates

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Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
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27) Refer to the following diagram, which shows a labor supply curve for an individual.



If the wage rises from W_1 to W_2, we may conclude that

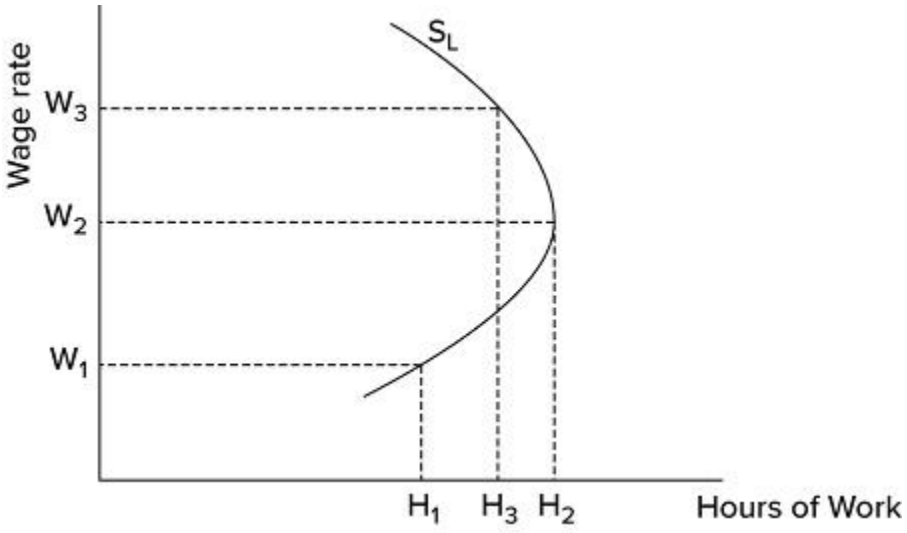
27) _____

A) the income effect is stronger than the substitution effect.
B) the income effect and substitution effects are equal.
C) the substitution effect is stronger than the income effect.
D) labor supply is perfectly inelastic.

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Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

28) Refer to the following diagram, which shows a labor supply curve for an individual.



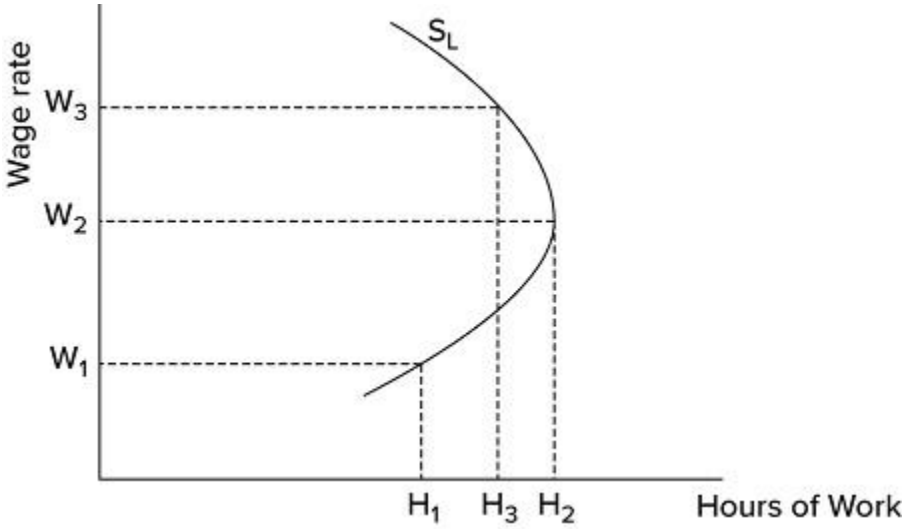
If this person were now willing to supply only H_1 hours of work at W_3, we could conclude that
28) _____

A) labor supply increased (the curve shifted to the right).
B) labor supply decreased (the curve shifted to the left).
C) the person's preferences must have changed.
D) the substitution and income effects are now equal.

Question Details
AACSB : Reflective Thinking
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Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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29) Refer to the following diagram, which shows a labor supply curve for an individual.



Of the following, which one would most likely cause this person to supply H_1 hours of work at W_3 rather than the current H_3 hours?

29) _____

A) this person's spouse receives a substantial income increase
B) a decrease in this person's marginal valuation of leisure time
C) Congress abolishes an income-maintenance program
D) this person's spouse suffers a substantial cut in income

Question Details
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Difficulty : 2 Medium
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30) Suppose an individual worker is on the backward-bending portion of her labor supply curve. Then, for a wage increase, the

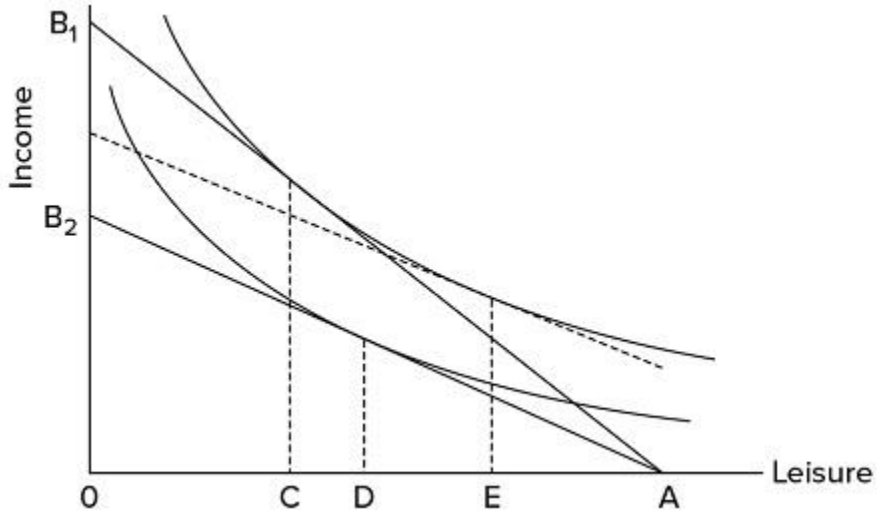
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30) _____

A) income and substitution effects both increase desired work hours.
B) income and substitution effects are equal.
C) income effect is stronger than the substitution effect.
D) substitution effect is stronger than the income effect.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

31) Refer to the following diagram.



If the current wage rate results in a budget constraint of AB_1, the individual will choose

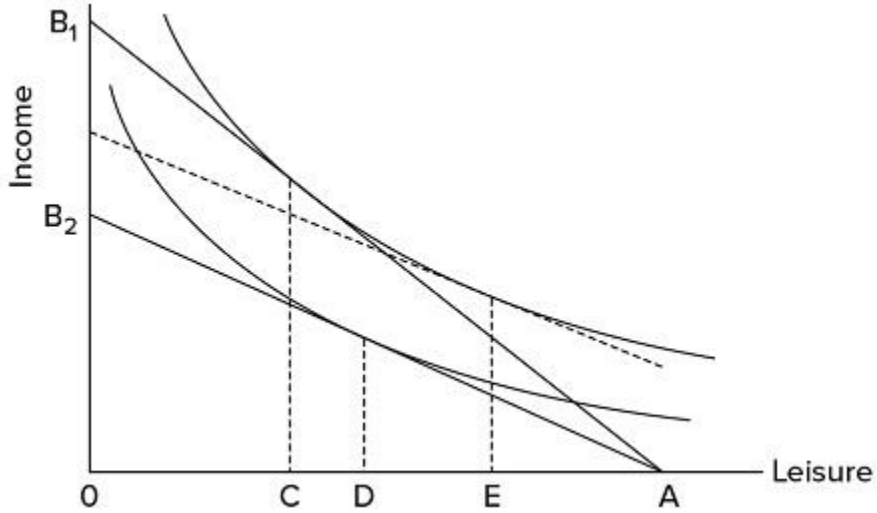
31) _____

A) 0C hours of work and AC hours of leisure.
B) AD hours of work and 0D hours of leisure.
C) 0D hours of work and AD hours of leisure.
D) AC hours of work and 0C hours of leisure.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

32) Refer to the following diagram.



The shift from budget line AB_1 to AB_2 implies a(n)

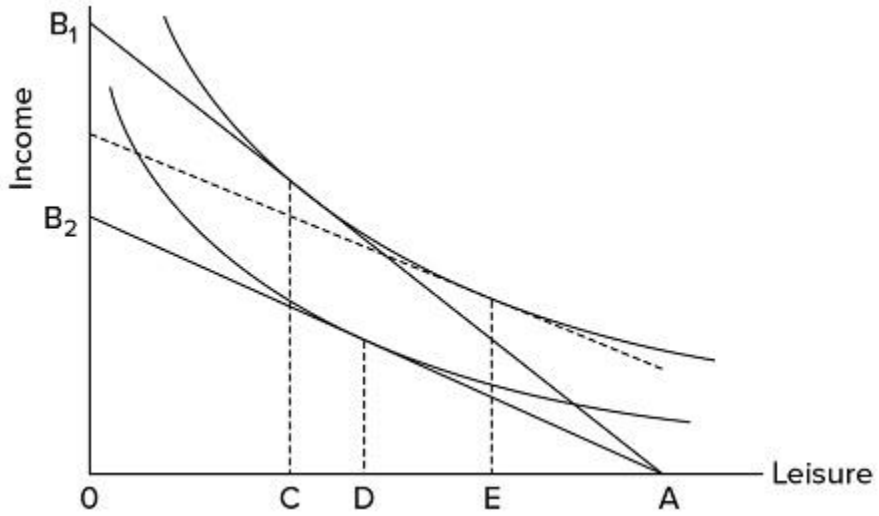
32) _____

A) decrease in the wage rate.
B) decrease in nonwage income.
C) increase in the wage rate.
D) increase in nonwage income.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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33) Refer to the following diagram.



The equilibrium positions shown imply that in the relevant wage range, this person is

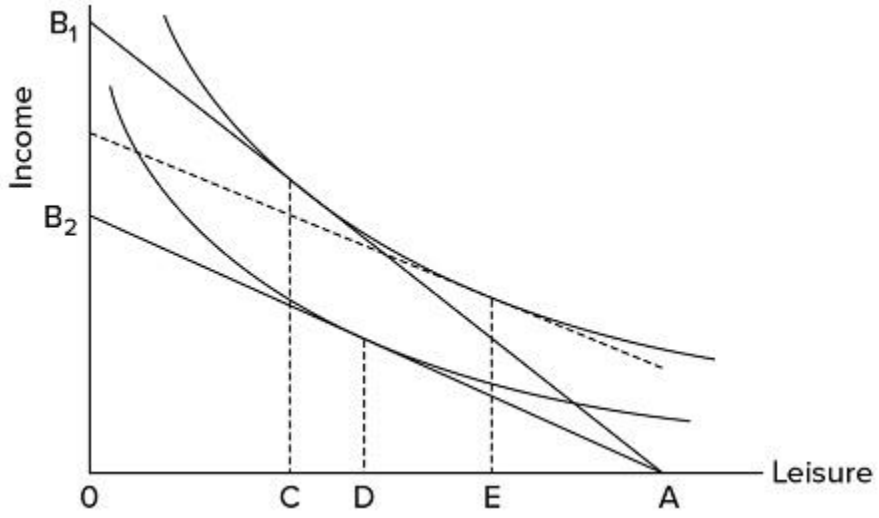
33) _____

A) on the up sloping segment of the individual labor supply curve.
B) on the backward-bending segment of the individual labor supply curve.
C) at the point on the individual labor supply curve where the income and substitution effects are equal.
D) being offered a wage less than the reservation wage.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

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34) Refer to the following diagram.



The equilibrium positions shown in the diagram imply that for a wage increase,

34) _____

A) both the income and substitution effects increase desired work hours.

B) both the income and substitution effects reduce desired work hours.

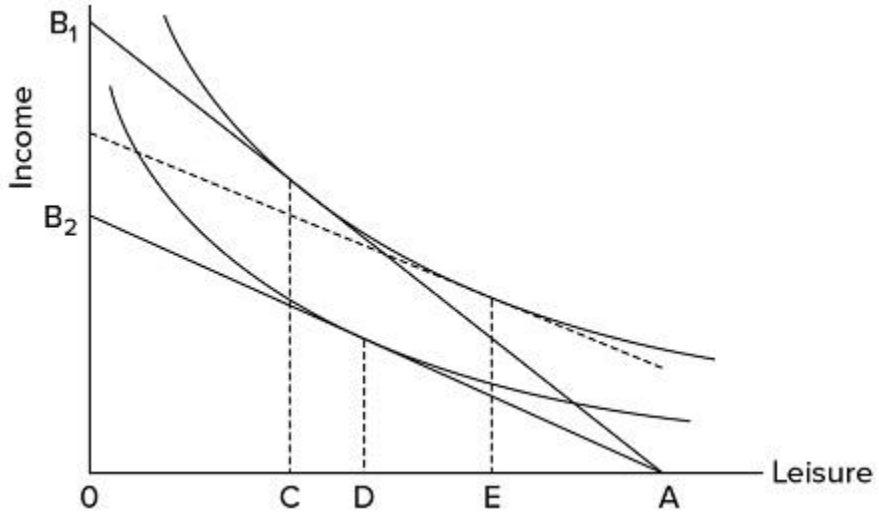
C) the income effect increases desired work hours and the substitution effect reduces desired work hours.

D) the income effect reduces desired work hours and the substitution effect increases desired work hours.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual’

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35) Refer to the following diagram.



In the diagram, the substitution effect associated with a wage increase is shown by the distance

35) _____

A) CD.
B) DE.
C) CE.
D) 0C.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

36) Suppose an individual worker is on the up sloping portion of her labor supply curve. Then, for a wage increase, the

36) _____

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A) income and substitution effects both increase desired work hours.
B) income and substitution effects are equal.
C) income effect dominates the substitution effect.
D) substitution effect dominates the income effect.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

37) A 10% increase in the wage induces Margy to increase her desired work hours by 2%. Over this range of wages, Margy's wage elasticity of labor supply is

37) _____

A) elastic.
B) unit elastic.
C) inelastic.
D) negative.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

38) For Jenny, the income effect of a wage increase dominates the substitution effect. Jenny's wage elasticity of labor supply is

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38) _____

A) elastic.
B) unit elastic.
C) inelastic.
D) negative.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : The Work–Leisure Decision: Basic Model
Learning Objective : 02-01 Use the basic income–leisure model to determine an individual'

39) Which of the following circumstances will increase the likelihood of an individual being a nonparticipant in the labor market?

39) _____

A) high earnings capacity in the labor market
B) the absence of nonwage income
C) a potential market wage that exceeds the individual's reservation wage
D) availability of substantial nonwage income

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

40) Steven's reservation wage is $12, and his market wage is $11. We can conclude that

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40) _____

A) Steven's marginal rate of substitution of leisure for income is less than his reservation wage.
B) Steven will be a nonparticipant in the labor market.
C) Steven's subjective valuation of nonmarket time is less than the value of work.
D) Steven has no nonwage sources of income.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

41) Shanita is required by her employer to work a standard eight-hour workday. Suppose her marginal rate of substitution of leisure for income is less than the wage rate at this level of work effort. We can conclude that Shanita will

41) _____

A) feel underemployed.
B) probably have a higher than average absenteeism rate.
C) feel overemployed.
D) prefer to work part-time, if such a job is available at the same wage rate.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

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42) Sammy is required by her employer to work a standard eight-hour workday. Suppose her marginal rate of substitution of leisure for income exceeds the wage rate at this level of work effort. We can conclude that Sammy will

42) _____

A) feel underemployed.
B) desire to find a second job.
C) feel overemployed.
D) desire to work voluntary overtime.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

43) Compared to workers with less education, people who have more education tend to earn higher wages and have higher pensions upon retirement. Given this observation, which of the following statements best explains why those persons with more education also retire at a later age?

43) _____

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A) If tastes for leisure are the same, the effect of the higher pension must outweigh the effects of the higher wages.

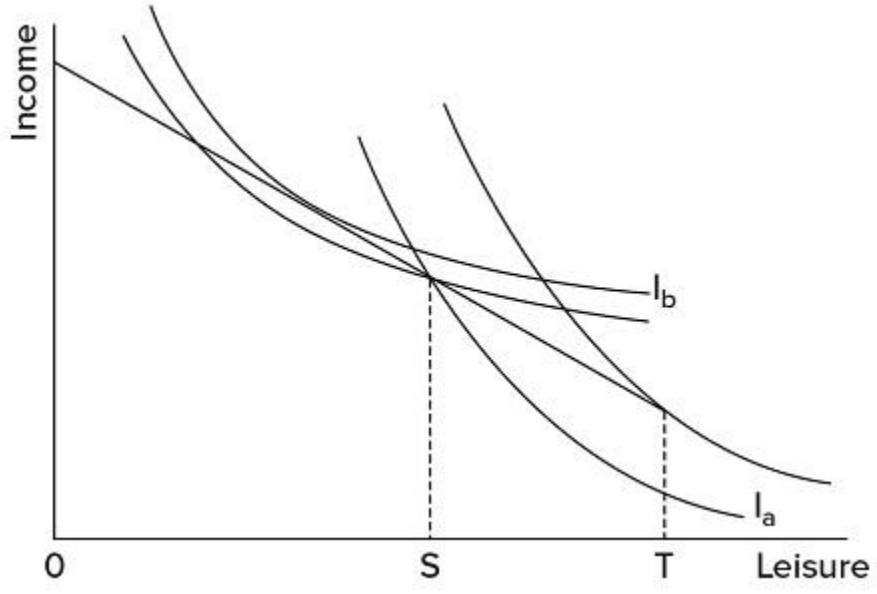
B) If tastes for leisure are the same, the effects of the higher wages must outweigh the effects of the higher pensions.

C) Since higher wages and pensions both suggest a lower retirement age, those with more education must value leisure less.

D) Regardless of the tastes for leisure, the higher wages and pensions would both suggest a higher retirement age.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

44) Refer to the following diagram. TS represents the standard 40-hour workweek. Indifference curves labeled with subscripts "a" and "b" are for individuals A and B, respectively.



Assuming workers must work TS hours or not work at all, worker A will

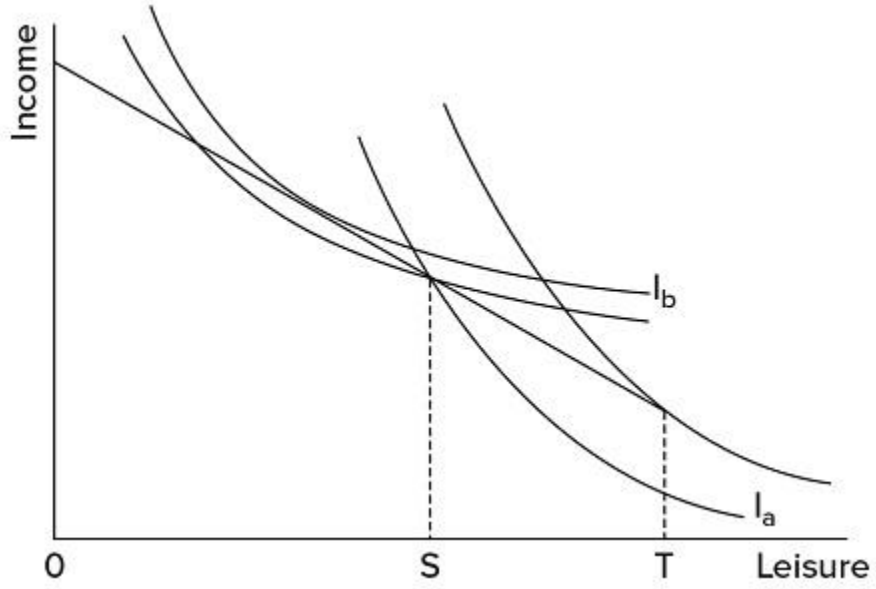
44) _____

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A) not participate in the labor force.
B) be at an optimum at TS hours of work.
C) work the standard workweek but will feel overemployed.
D) work the standard workweek but will feel underemployed.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

45) Refer to the following diagram. TS represents the standard 40-hour workweek. Indifference curves labeled with subscripts "a" and "b" are for individuals A and B, respectively.



Assuming workers must work TS hours or not work at all, worker B will

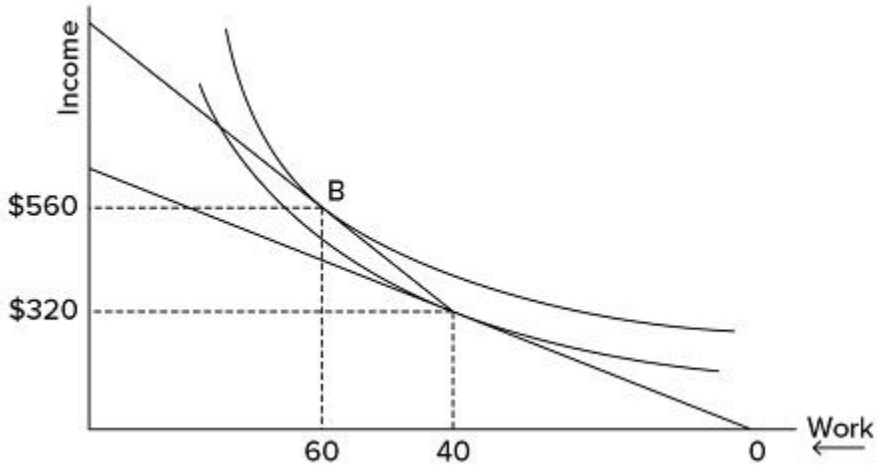
45) _____

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A) not participate in the labor force.
B) be at an optimum at TS hours of work.
C) work the standard workweek but will feel overemployed.
D) work the standard workweek but will feel underemployed.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

46) Refer to the following diagram.



Suppose this worker is currently working 40 hours per week and earning $8 per hour. Which one of the following would cause a move to point B and the subsequent increase in work hours to 60?

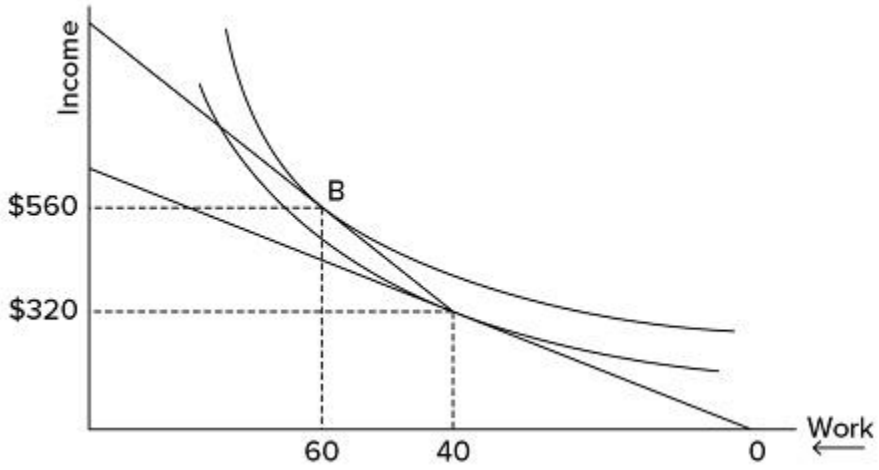
46) _____

A) the availability of overtime work at $12 per hour
B) the availability of a moonlighting job that pays $6 per hour
C) an increase in the straight-time wage to $9.33 per hour
D) an increase in nonwage income of $240

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Question Details
Accessibility : Keyboard Navigation
Topic : Applying and Extending the Model
AACSB : Analytic
Bloom's : Apply
Difficulty : 3 Hard
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

47) Refer to the following diagram.



Suppose this worker's union negotiates an increase in the straight-time wage from $8 to $9.33 per hour with no bonus for overtime. This plan would allow earnings of $560 at 60 hours per week. Assuming this worker can freely choose the number of hours worked, he will choose to work

47) _____

A) 60 hours per week.
B) fewer than 60 hours per week.
C) more than 60 hours per week.
D) more than 60 hours per week if the income effect dominates; less otherwise.

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Question Details
Accessibility : Keyboard Navigation
Topic : Applying and Extending the Model
AACSB : Analytic
Bloom's : Apply
Difficulty : 3 Hard
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

48) Suppose a working mother is currently ineligible for any government assistance. If she were then to become eligible for an income-maintenance program that incorporates both a basic benefit and a positive benefit-reduction rate,

48) _____

A) both the income and substitution effect will cause her to increase her work effort.
B) both the income and substitution effect will cause her to decrease her work effort.
C) her work effort will increase if the substitution effect is stronger than the income effect.
D) her work effort will decrease if the substitution effect is stronger than the income effect.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Medium
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

49) Assume under an income-maintenance program that the basic benefit (income guarantee) is $9,000 and the benefit-reduction rate is 50%. If a family has an earned income of $3,000 per year, its subsidy payment will be

49) _____

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A) $6,000.
B) $7,500.
C) $9,000.
D) $0.

Question Details
Accessibility : Keyboard Navigation
Topic : Applying and Extending the Model
AACSB : Analytic
Bloom's : Apply
Difficulty : 3 Hard
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

50) Assume under an income-maintenance program that the basic benefit (income guarantee) is $9,000 and the benefit-reduction rate is 50%. The break-even level of income is

50) _____

A) $4,500.
B) $6,000.
C) $9,000.
D) $18,000.

Question Details
Accessibility : Keyboard Navigation
Topic : Applying and Extending the Model
AACSB : Analytic
Bloom's : Apply
Difficulty : 3 Hard
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

51) Suppose an income-maintenance program offers a basic benefit of $7,500 per year and the benefit-reduction rate is 33 1/3%. The break-even level of income is then

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51) _____

A) $2,500.
B) $7,500.
C) $15,000.
D) $22,500.

Question Details
Accessibility : Keyboard Navigation
Topic : Applying and Extending the Model
AACSB : Analytic
Bloom's : Apply
Difficulty : 3 Hard
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

52) The Personal Responsibility and Work Opportunity Act of 1996

52) _____

A) moved control over welfare spending from states to the federal government.
B) removed lifetime limits on welfare eligibility.
C) with few exceptions, requires welfare recipients to work after two years of receiving assistance.
D) provided immediate welfare benefits to qualified immigrants.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

53) In the years following enactment of welfare reform in 1996, welfare case loads

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53) _____

A) dropped slightly.
B) increased slightly.
C) dropped by more than 50%.
D) increased by almost 50%.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

54) Empirical evidence indicates that lottery prize winners _____ their labor force participation after winning; further, spouses of lottery prize winners tend to be _____ likely to work after winning the lottery.

54) _____

A) don't change; less
B) reduce; more
C) reduce; equally
D) reduce; less

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

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55) The Earned Income Tax Credit

55) _____

A) reduces desired hours of work for those already in the labor force.
B) increases the labor force participation rate.
C) always increases with increases in earnings.
D) is phased out as the number of children increases.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : 1 Easy
Topic : Applying and Extending the Model
Learning Objective : 02-02 Apply and extend the basic work–leisure model.

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Answer Key

Test name: CH02

1) B
2) D
3) A
4) B
5) A
6) C
7) C
8) D
9) A
10) B
11) C
12) A
13) D
14) C
15) A
16) B
17) A
18) A
19) B
20) D
21) B
22) C
23) C
24) C
25) D

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26) A
27) C
28) B
29) A
30) C
31) D
32) A
33) A
34) D
35) C
36) D
37) C
38) D
39) D
40) B
41) A
42) C
43) B
44) A
45) D
46) A
47) B
48) B
49) B
50) D
51) D
52) C
53) C
54) D
55) B

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Contemporary Labor Economics 12th Edition by McConnell CH02

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